

Message Text

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11

ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 PA-01 PRS-01 /080 W
----- 012960

P R 151203Z MAR 76

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC PRIORITY 609

INFO AMCONSUL JERUSALEM

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E.O. 11652: N/A

TAGS: EFIN, AFSP, IS

SUBJECT: ISRAELI POUND DEVALUED, SUBSIDIES REDUCED

REF: TEL AVIV 1824

1. GOI HAS ANNOUNCED 1.9 PERCENT DEVALUATION OF ISRAELI POUND (IL) TO 7.52 PER DOLLAR EFFECTIVE MARCH 15, AND REDUCTIONS OF APPROXIMATELY 25 PERCENT IN SUBSIDIES ON BASIC FOODS AND SERVICES. ADDITIONALLY, GASOLINE PRICES WERE INCREASED ALMOST 15 PERCENT, AND BUS, RAILROAD, TAXI AND DOMESTIC AIRLINE FARES 25 PERCENT. ELECTRICITY, WATER AND COOKING GAS RATES ALSO WILL BE INCREASED. COMPLETE DETAILS WILL BE SUBMITTED BY AIRGRAM.

2. IN OBTAINING HISTADRUT AGREEMENT FOR SUBSIDY REDUCTIONS PRIOR TO PREVIOUSLY ACCEPTED APRIL 1 DATE, GOI PROMISED NOT REPEAT NOT TO REDUCE SUBSIDIES AGAIN FOR SIX MONTHS.

3. IMPACT GOI'S MEASURES ON CONSUMER PRICE INDEX (CPI) ESTIMATED BY MINISTRY OF FINANCE AT ABOUT 4.5 PERCENT DURING NEXT TWO MONTHS. NATAD INCREASED MARCH 14 TO IL 9.21

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PER DOLLAR; BLACK MARKET DOLLAR ROSE TO IL 10.50 PER DOLLAR.

4. IN RELATED DEVELOPMENT, CABINET DECIDED MARCH 14 NOT TO INCREASE DEFENSE MINISTRY'S BUDGET FOR NEXT FISCAL YEAR BEYOND LEVEL IN DRAFT BUDGET. DEFENSE MINISTRY HAD REQUESTED ONE BILLION ISRAELI POUND INCREASE CLAIMING THAT ITS PROPOSED FY 76/77 BUDGET INCLUDES 25 PERCENT RESERVE FOR PRICE INCREASES WHILE CPI OFFICIALLY FORECAST TO RISE 32 PERCENT. CABINET RESOLVED ISSUE BY DECIDING THAT IF PRICES ROSE MORE THAN 25 PERCENT DURING YEAR IT WOULD REVIEW ISSUE. MOREOVER, DEFENSE MINISTRY OBJECTED TO USE OF EXCHANGE RATE OF IL 8.50 PER DOLLAR FOR PROJECTED \$150 MILLION USG MILITARY ASSISTANCE FOR LOCAL PROCUREMENT. CABINET DECIDED DEFENSE MINISTRY COULD USE EXCHANGE RATE PREVAILING AT TIME OF TRANSACTIONS.

5. COMMENT: GOVERNMENT SPOKESMAN STATED THAT FURTHER PRICE INCREASES CAN BE EXPECTED TO FOLLOW LATER IN YEAR. REGARDING EXCHANGE RATE, OBSERVERS ANTICIPATE LARGER DEVALUATION IN NEAR FUTURE SHOULD DOLLAR (AND WITH IT, ISRAELI POUND) CONTINUE TO APPRECIATE.
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